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JUL 16 2015

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

**SECRETARY, BOARD OF
OIL, GAS & MINING**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF QEP ENERGY COMPANY FOR AN ORDER EXTENDING THE BOARD'S ORDER ENTERED IN CAUSE No. 191-06, WHICH SUSPENDED THE APPLICATION OF UTAH ADMIN. CODE R649-3-2, R649-3-10, AND R649-3-11(1) AND (2) FOR THE AREA LOCATED WITHIN THE OURAY PARK II FEDERAL EXPLORATORY UNIT, TO THE LANDS ADDED THROUGH EXPANSION OF THE UNIT, CONSISTING OF ALL OF SECTION 1, THE NE $\frac{1}{4}$ NE $\frac{1}{4}$ OF SECTION 11, AND THE E $\frac{1}{2}$, NW $\frac{1}{4}$, AND THE NE $\frac{1}{4}$ SW $\frac{1}{4}$ OF SECTION 12, TOWNSHIP 7 SOUTH, RANGE 20 EAST, SLM, UTAH COUNTY, UTAH.

**FINDINGS OF FACT,
CONCLUSIONS OF LAW,
AND ORDER**

Docket No. 2015-015

Cause No. 191-07

This matter was heard before John C. Rogers, Associate Director, Oil and Gas, Utah Division of Oil, Gas and Mining (the "Division"), as Hearing Examiner designated by the Utah Board of Oil, Gas, and Mining (the "Board"), on Tuesday, April 28, 2015, at approximately 10:00 a.m. in Room 2000 of the Utah Department of Natural Resources, 1594 West North Temple, Salt Lake City, Utah. The Hearing Examiner was represented by John Robinson, Jr., Assistant Attorney General.

Attending on behalf of the Division of Oil, Gas and Mining (the "Division") was Dustin Doucet, Petroleum Engineer. The Division was represented by Steven F. Alder, Assistant Attorney General.

Testifying via video conference before the Hearing Examiner from Denver, Colorado, on behalf of Petitioner, QEP Energy Company, was Laura Rippentrop, Landman, Aaron Bazzell,

Associate Geologist, and Daniel J. Rabiolo, Senior Reservoir Engineer. QEP was represented by Mark L. Burghardt of Holland & Hart, LLP.

The Hearing Examiner's Recommended Findings of Fact and Conclusions of Law were filed with the Utah Board of Oil, Gas and Mining (the "Board") on May 12, 2015.

This matter came before the Board on Wednesday, May 27, 2015, at approximately 9:00 a.m. in the auditorium of the Utah Department of Natural Resources, 1594 West North Temple, Salt Lake City, Utah. The following Board members were present and participated in the hearing: Ruland J. Gill, Jr., Chairman, Susan S. Davis, Gordon L. Moon, Chris Hansen, Richard Borden, Carl F. Kendell, and Michael Brown. The Board was represented by Michael S. Johnson, Assistant Attorney General.

The Board, having considered the Hearing Examiner's Recommended Findings of Fact and Conclusions of Law, being fully advised, and for good cause shown, hereby enters the following findings of fact, conclusions of law, and order:

FINDINGS OF FACT

1. QEP is a Texas Corporation in good standing, with its principal place of business in Denver, Colorado. QEP is qualified to do business in Utah and is fully and appropriately bonded with all Federal and State of Utah agencies.

2. The Request for Agency Action covers the following lands:

Township 7 South, Range 20 East, SLM

Section 1: Lots 1-4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]

Section 11: NE $\frac{1}{4}$ NE $\frac{1}{4}$

Section 12: E $\frac{1}{2}$, NW $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$

(the "Subject Lands").

3. The oil and gas underlying the subject lands is owned by the United States of America and leased under federal lease UTU-88140. QEP owns a majority of the working interest in this lease.

4. On December 5, 2014, the Utah Board of Oil, Gas and Mining issued the Findings of Fact, Conclusions of Law, and Order in Cause No. 191-06, suspending the application of Utah Admin. Code R649-3-2, R649-3-10, and R649-3-11(1) and (2) for the Ouray Park II Federal Exploratory Unit (the "OP II Unit").

5. The OP II Unit (UTU-90211X) was approved on June 2, 2014, and consists of all of the Subject Lands, totaling 2,926.56 acres. The unit is administered by the United States Bureau of Land Management ("BLM"), and QEP serves as the unit operator. There are no uncommitted tracts within the Unit. According to Paragraph 16 of the OP II Unit Agreement, all operations must be conducted in a manner that will promote conservation and prevent waste.

6. The Subject Lands have not been previously spaced by the Board. The wells on the Subject Lands have been located in accordance with the Division and the Board's general rules, including the well location and siting rules contained in Utah Admin. Code R649-3-2 and directional drilling rules in Utah Admin. Code R649-3-10 and R649-3-11. Under these rules, each well is to be located within a 400-foot "window" in the center of each 40-acre governmental quarter-quarter section, or substantially equivalent lot or tract, and no well may be located closer than 920 feet from an existing well drilled to or capable of producing oil and gas from the same pool. The default siting and location rules allow an approximate 40-acre well density pattern.

7. Well density and location patterns within the OP II Unit are determined in accordance with the terms of the OP II Unit Agreement and the annual plan of development

approved by the BLM. Applications for permit to drill are approved by both the BLM and the Division.

8. Based on a proposed 40-acre density pattern, there is potential for a total of 28 additional wells within the expansion of the OP II Unit. Of these proposed locations, approximately ten of the wells would require that an exception location approval be obtained pursuant to Utah Admin. Code R649-3-3 because the wells cannot be located within the allowed “window” due to the topography in portions of the Subject Lands.

9. In requesting that the Board extend its prior order in Cause No. 191-06 and suspend Utah Admin. Code R649-3-2, R649-3-10, and R649-3-11 to cover the expansion of the OP II Unit, QEP has agreed to the following conditions:

(a) The producing interval of any future wells will not be located closer than 460 feet from the OP II Unit boundary without obtaining an exception location from the Division in accordance with Utah Admin. Code R649-3-3;

(b) No well may be directionally drilled on the Subject Lands if any portion of the producing wellbore will be closer than 460 feet to the OP II Unit boundary without complying with Utah Admin. Code R649-3-3 and R649-3-11(1) and (2);

(c) QEP or its successor as unit operator of the OP II Unit agrees to provide (1) a plat or sketch showing the distance to lease boundaries and the target location with any application for permit to drill filed for a directionally drilled well and (2) a copy of the annual plan of development and operation for the OP II Unit; and

(d) The requested suspension of these rules will remain in effect only for as long as the Subject Lands are committed to the OP II Unit.

10. Evidence presented by QEP indicated that development of the expansion of the OP II Unit on 40-acre well density is economical and appropriate under the circumstances.

11. QEP mailed copies of both the Request to the last known addresses of record as shown in the Uintah County Recorder's Office and the Bureau of Land Management, Salt Lake City Office, for all persons having a legally protected interest in this matter by certified mail, return receipt requested.

12. Notice of the filing of the Request and of the hearing was duly published in the Salt Lake Tribune and the Deseret Morning News on April 5, 2015, and the Uintah Basin Standard and the Vernal Express on April 7, 2015.

13. The vote of the Board members present at the hearing was unanimous in favor of granting the Request.

CONCLUSIONS OF LAW

14. Due and regular notice of the time, place, and purpose of the hearing was properly given in the form and manner as required by law and the rules and regulations of the Board and Division to all parties whose legally protected interests are affected by the Request.

15. The Board has jurisdiction of the parties and of the subject matter pursuant to Utah Code Ann. § 40-6-1. *et seq.*

16. Development in accordance with the OP II Unit annual plan of development will conserve the resource and prevent waste.

17. The requested suspension of the default siting and location rules will result in consistent and orderly development and the greatest ultimate recovery of oil, gas and associated

hydrocarbons, prevent waste, and adequately protect the correlative rights of all affected parties in the Subject Lands.

18. QEP has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for granting the Request.

ORDER

Based upon these findings of fact and conclusions of law, the Request, and testimony and other evidence submitted by QEP, the Board hereby orders:

1. The Request in this matter is granted.
2. Utah Admin. Code R649-3-2, R649-3-10, and R649-3-11(1) and (2) are suspended for the Subject Lands, provided that:
 - i. The producing interval in any future well may not be located closer than 460 feet to the boundaries of the expansion of the OP II Unit without obtaining an exception location from the Division pursuant to Utah Admin. Code R649-3-3;
 - ii. No well may be directionally drilled if any producing portion of the 460-foot radius along the projected wellbore intersects with the boundaries of the expansion of the OP II Unit without complying with the requirements of Utah Admin. Code R649-3-11; and
 - iii. QEP or its successor as unit operator of the expansion of the OP II Unit agrees to provide (1) a plat or sketch showing the distance to lease boundaries and the target location with any application for permit to drill

filed for a directionally drilled well and (2) a copy of the annual plan of development and operation for the OP II Unit.

3. This suspension of these rules will remain in effect only so long as the Subject Lands are committed to the OP II Unit.

4. The Board has considered and decided this matter as a formal adjudication, pursuant to the Utah Administrative Procedures Act, Utah Code Ann. §§ 63G-4-204 through 208, and of the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641.

5. This order is based exclusively upon evidence of record in this proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, as required by the Utah Administrative Procedures Act, Utah Code Ann. § 63G-4-208, and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641-109; and constitutes a final agency action as defined in the Utah Administrative Procedures Act and Board rules.

6. **Notice of Right of Judicial Review by the Supreme Court of the State of Utah.** As required by Utah Code Ann. § 63-G-4-208(e) through (g), the Board hereby notifies all parties to this proceeding that they have the right to seek judicial review of this order by filing an appeal with the Supreme Court of the State of Utah within 30 days after the date this order is entered. Utah Code Ann. § 63G-4-401(3)(a) and 403.

7. **Notice of Right to Petition for Reconsideration.** As an alternative, but not as a prerequisite to judicial review, the Board hereby notifies all parties to this proceeding that they

may apply for reconsideration of this order. Utah Code Ann. § 63G-4-302. The Utah Administrative Procedures Act provides:

(1) (a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63-46b-12 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied. *Id.*

The Rules of Practice and Procedure before the Board of Oil, Gas and Mining entitled “Rehearing and Modification of Existing Orders” state:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of that month. Utah Admin. Code R641-110-100.

The Board hereby rules that should there be any conflict between the deadlines provided in the Utah Administrative Procedures Act and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the

aggrieved party may seek judicial review of the order by perfecting an appeal with the Utah Supreme Court within 30 days thereafter.

8. The Board retains exclusive and continuing jurisdiction of all matters covered by this order and of all parties affected thereby; and specifically, the Board retains and reserves exclusive and continuing jurisdiction to make further orders as appropriate and authorized by statute and applicable regulations.

9. The Chairman's signature on a facsimile copy of this order shall be deemed the equivalent of a signed original for all purposes.

DATED this 16th day of July, 2015.

STATE OF UTAH
BOARD OF OIL, GAS, AND MINING

By: 
Ruland J. Gill, Jr., Chairman

CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of July, 2015, I caused a true and correct copy of the foregoing **FINDINGS OF FACT AND CONCLUSIONS OF LAW** for Docket No. 2015-015, Cause No. 191-07, to be mailed by Email or via First Class Mail with postage prepaid, to the following:

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